

85th Legislative Session – 2010

Committee: Joint Appropriations

Friday, January 15, 2010

P - Present
E - Excused
A - Absent

Roll Call

P Ahlers
E Burg
P Bartling
P Dennert
P Hundstad
P Wismer
P Novstrup (Al)
P Brown
P Carson
E Deadrick
P Peters
P Wink
P Haverly
P Putnam
P Hunhoff (Jean), Chair
P Tidemann, Vice-Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Senator Hunhoff.

Department of Social Services

Secretary Deb Bowman appeared before the Committee to discuss the department's FY11 budget request. Also in attendance were Brenda Tidball-Zeltinger, Larry Iverson, Virgena Wieseler, Kim Malsam-Rysdon, Sharon Sonnenschein, Doug Dix and Laura Schaeffer. Documents 1, 2, and 3 were distributed.

The Department's FY10 Highest Priorities

- Increase access to quality services for our customers.
- Reduce abuse, neglect and exploitation of vulnerable people.
- Continually improve customer services.
- Manage internal processes and procedures to achieve our mission.
- Ensure employees possess necessary competencies.

The Department of Social Services' recommended budget consists of \$294,589,175 from the general fund, \$655,282,347 of federal fund authority, \$8,062,044 from other funds, and 995.5 FTEs.

Major Expansions and Reductions

FMAP

- An increase of \$20,182,813 from the general fund is due to a change in the FMAP (Federal Medical Assistance Percentage) rate. This change results in an appropriation shift to the general fund from federal funds.

Administration

- A decrease of \$98,910 and 2.5 FTEs due to restructuring clerical duties.

Economic Assistance

- Weatherization Grants: A decrease of \$8,000,000 of federal fund authority which represents the stimulus authority being removed.
- LIEAP Benefits: An increase of \$12,000,000 of federal fund authority for LIEAP benefits.
- Community Assistance: A decrease of \$3,000,000 of federal fund authority which represents the stimulus authority being removed.
- Auxiliary Placement Support Staff: An increase of \$143,803 of other funds which represents 4 youth placed in group and residential treatment centers.
- TANF Grants: An increase of \$1,457,174 of federal fund authority based on projected caseload growth of 302 cases.
- SSI State Supplementation: An increase of \$16,740 of general funds due to an increase of 93 individuals served.
- SNAP – Nutrition Education: An increase of \$58,773 of federal fund authority for the Nutrition Education Program administered by SDSU.

Medical & Adult Services

- FMAP funding flip from federal funds to general funds for the Medical and Adult Services division of \$19,098,261.
- School Based Administration: An increase of \$900,000 in federal funds for school based administration.

- Medical Services-Mandatory Provider Inflation: An increase of 4,532,080 due to provider inflation.
- Medical Services-Increased Utilization: An increase of \$5,960,204 due to increased utilization of medical services (\$2,080,708 general).
- Medical Services-Increased Clients: An increase of \$15,188,197 due to increased medical services clients (\$5,265,528 general).
- Medical Services-Revised FY10 Estimates: An increase of \$42,074,058 due to increased costs for medical services (\$14,191,627 general).
- Medicare Part D: A funding flip of \$2,153,526 in the Medicare Part D state contribution.
- Indian Health Services: An expansion of \$20,160,575 of federal fund authority due to revised FY10 estimates.
- Adult Services & Aging – Administration: A decrease of \$15,255 and .5 FTE due to restructuring duties (\$8,321 general).
- In Home Services: An increase of \$103,145 of federal fund authority for contractual services for the Aging and Disability Resource Center Federal Grant Award and a temporary funding flip of \$100,000 from general funds to other funds to spend Homemaker Fees funds.
- Community Support Services: A decrease of \$500,000 of federal fund authority due to the ARRA funds for the Elderly Nutrition Program.
- Long-term Care Services: A decrease of \$956,248 (-\$333,826 general) due to a projected decrease in utilization.
- Victim's Services: A decrease of \$448,286 of federal fund authority due to the ARRA funds for Victim's Services.

Children's Services

- FMAP funding flip from federal funds to general funds for the Children's Services division is \$1,073,986.
- Contract Payments to State Agencies: An increase of \$85,000 to reimburse the UJS for the referee costs for child support modification and order establishment cases when referee hearings are conducted. \$21,675 general)
- Subsidized Adoptions and Medical: An increase of \$1,137,985 (\$729,802 general) in the area of subsidized adoptions and medical due to increased FY10 subsidies and increased FY11 utilization.
- Court-Ordered Supervision: A decrease of \$660,000 in general funds for court ordered supervision. This will end contracts with private agencies.
- Child Care Direct Assistance: A decrease of \$5,000,000 of federal fund authority due to

the ARRA funds being removed for FY11.

- Child Support: An increase of \$1,087,500 in general funds and equal decrease of federal fund authority due to the provisions of ARRA ending.

Secretary Bowman told the Committee the FY10 Operating budget totaled \$872,435,452 with 998.5 FTE and the FY11 recommended budget is \$957,933,566 with 995.5 FTE. Major impacts to the department's budget include:

- A significant growth in assistance programs due to the downturn in the economy. National experts indicate that every 1% increase in unemployment results in an increase of 1 million Medicaid and CHIP eligibles nationwide.
- Federal Medical Assistance Percentage (FMAP), increase of \$20,182,813 in General Funds
- Mandatory Provider Inflation for Medical Services, increase of \$1,894,011 in General Funds
- Medicaid Growth & Medicaid Utilization, increase of \$7,346,236 in General Funds
- FY10 Revised Estimates for Medical Services, increase of \$14,191,627 in General Funds
- Medicare Part D – Replacing One Time Use of Other Funds, increase of \$2,153,526 in General Funds
- Increase for Subsidized Adoptions - \$729,802 in General Funds
- Increased Federal Grant Funding for LIEAP Benefits - \$12,000,000 in Federal Funds
- Reduction to Nursing Home budget due to decreased utilization – (\$333,826) in General Funds
- Discontinue Contracting the Court Ordered Supervision Program – (\$660,000) in General Funds
- FTE Cuts – Reduction of 3.0 FTE – (\$56,570) in General Funds
- Reduction of ARRA Stimulus Federal Authority – (\$18,035,786) in Federal Funds
- No Discretionary Inflation

Division of Economic Assistance

Secretary Bowman told the Committee individuals eligible for Economic Assistance include low income families, children and individuals, the elderly and those with disabilities. The number of individuals using food stamps has increased 35% from December 2008 to December 2009. The Federal government gave food stamp recipients a 13.62% increase in benefits, moving the monthly benefit from \$278 to \$316. Secretary Bowman said this increase is ongoing and will not end with ARRA.

Secretary Bowman told the Committee the department projects an increase of 302 TANF cases, an increase of 4 children in the Auxiliary Placement (the department pays for the education costs

of those children removed from homes for whatever reason), and an increase of 93 individuals in the SSI State Supplementation Program. The department is requesting a \$16,740 increase in SSI for the monthly benefit paid to those individuals receiving supplemental security income. This benefit (\$15/month) is part of a longtime agreement with the federal government. Senator Hunhoff asked how eligibility is determined. Secretary Bowman said the Social Security Administration makes that determination. It takes a long time to get approved for this program which may explain the increased numbers.

Senator Hunhoff asked about the projected increase in TANF numbers. Secretary Bowman said these individuals were likely employed, lost their jobs due to the economy downturn and are now eligible for TANF. The department contracts with the Department of Labor to provide training for new employment. The individual is required to work or be in training. South Dakota is one of the states that meets and exceeds this requirement.

Representative Peters asked for additional information on the TANF award and account balance. Secretary Bowman said the annual federal award is \$21,279,651. South Dakota is required to match with general funds and \$8,540,000 as the required maintenance of effort for a total of \$29,819,651. The department anticipates no increases to this award. The budgeted SFY11 TANF amounts total \$34.8 million. As of June 30, 2009 the carryover balance was \$19,051,042.

Senator Brown asked about the ARRA funds for weatherization. Secretary Bowman told the Committee that of all of the ARRA funds received, the weatherization funds had been the most challenging. It was a large amount of money (\$20 million) that required finding enough crews to do the work. Additionally the department found out they were required to follow Davis-Bacon rules. Initially there was not a labor survey available for this type of work; and after the survey was done, the results presented salary challenges. In addition, AARA funding requires a tremendous amount of reporting. The department has been working with the service providers in this effort. Senator Ahlers asked if more homes have been done than in previous years. Secretary Bowman said yes. Senator Ahlers asked the department to provide information on the number of homes worked on and the cost per home compared to the past years. Secretary Bowman said the federal government had moved the qualifying criteria from 160% of the poverty level to 200%. In response to Committee questions, Secretary Bowman said individuals doing the work are not department employees; they are private agencies and were made aware that these jobs were short term. Crews have been added to get the work done and because they are contractors, their work will continue after the stimulus money runs out. The funds must be spent by March 31, 2012.

In response to a question on the \$12,000,000 increase for LIEAP benefits, Secretary Bowman said because the department had received a \$12 million fuel assistance grant they were asking for an increase in this area. The department hopes weatherization of homes will provide a reduction in fuel assistance. Secretary Bowman said the fuel assistance benefit does not pay the entire fuel bill.

Division of Adult Services and Aging

The Division of Adult Services and Aging is requesting a \$6,242,852 general fund increase in FMAP funding. Secretary Bowman reminded the Committee the match for FMAP went up when the ARRA funds went away.

Representative Peters asked for information on the Aging & Disability Resource Center Grant. Secretary Bowman said the \$103,145 grant was for 3 years and the department receives a similar amount each year. This funding is not for a new program but to help redesign a current program.

Representative Tidemann asked for the balance of the Other funds account that will cover the \$100,000 for In-home Services and Representative Peters asked for a breakdown of the account. Secretary Bowman will provide this information.

Senator Hunhoff asked for clarification on the reduction in nursing home utilization. Secretary Bowman said the department closely monitors nursing home trends and has seen a decrease in nursing home admissions. The decrease could be a combination of doing more in assisted living and adult day care centers and people are staying healthier longer. Approximately 58% of those in nursing homes are Medicaid eligible. The average length of stay in a nursing home is also decreasing because people are going in later in life and those going in have more serious health issues. The reduction involves 23 individuals.

Division of Child Support

The department is requesting an increase of \$85,000 (\$21,675 in general funds) for utilization of referee hearings. The department pays for referee hearings in child support cases and projects an increase of 340 cases for FY11. Secretary Bowman said the projected increase is a result of historical data and possibly a result of legislation passed last year regarding child support.

The department is requesting an increase of \$1,087,500 in general funds for Child Support Incentive Funds. Secretary Bowman explained that Congress passed a law two years ago that no longer allowed incentive money to be used for matching funds after September 30, 2010. South

Dakota had always benefited from incentive money because its program has been No. 1 in the nation for years. However, there is currently a bill in Congress that would reinstate that option. If that bill would pass, the requested funds would not be necessary and would be reverted back to the General Fund. Senator Ahlers reminded the Committee that Secretary Bowman promised the money would be reverted.

Child Protection Services

Secretary Bowman said the requested \$1,137,985 increase in Subsidized Adoptions (\$729,802 general funds) was because the department is supporting a record number of children. Two years ago 188 children were adopted and 167 last year. The subsidy pays for ongoing counseling and medical care. The department does not pay more than if the child were in a foster family; however, adoption is a better route for the child. The child is supported until they reach the age of 18. The department anticipates a growth in the number of families being subsidized from 1,481 in FY10 to 1,588 in FY11.

Secretary Bowman briefed the Committee on the \$660,000 reduction in Court Ordered Supervision. This program, implemented three years ago, tests parents of children that were removed from the home, before the child is returned. The department contracted with Volunteers of America to do the monitoring. When reviewing the budget, Secretary Bowman reluctantly agreed to cut this program and transition the work to Child Protection staff. While it was a difficult decision to make, Secretary Bowman said it is hard to cut a federal program when every dollar put into a federal program is matched by \$3. Secretary Bowman stressed that it was her decision to cut the program and not the Governors. Senator Ahlers asked if there will be a reduction in services. Secretary Bowman said no, Child Protection will do the work. Senator Hunhoff asked how many children will be impacted by this change. Secretary Bowman said in December there was a total of 67, a combination of 24 court ordered supervision and 43 in trial reunification. Representative Dennert asked if any children would be put at risk. Secretary Bowman said no. Senator Brown asked if the Child Protection office would be asking for an increase due to this additional work. Secretary Bowman said no.

Secretary Bowman said overtime has been an issue in Child Protection Services just because of the work they do. The department will provide the Committee additional information on overtime. Representative Tidemann asked how the department will measure the success of this transition. Secretary Bowman reminded the Committee the court-ordered supervision program did not exist until 3 years ago, so if it went away the department wouldn't be doing anything different than what they had done in a majority of its cases. Department staff check on the

number of times the family is visited by its child protection worker. Local child protection teams will be a major resource to the local staff.

Child Care Services

Secretary Bowman spoke to the \$5,000,000 reduction in Child Care. ARRA funds made it possible for the department to increase the child care subsidy for a 1 year, to offer a program to dislocated workers looking for employment to pay for 2 weeks of child care and provided grants to rural after school programs and child care providers. The \$5 million has to be spent by September 30, 2010. Senator Hunhoff asked if this program was available to those on TANF. Secretary Bowman said yes and reminded the Committee a typical monthly TANF check is \$400.

Pam Bollinger, CEO of Volunteers of America spoke to the proposed elimination of the court ordered supervision program. Ms. Bollinger said since 2007 Volunteers of America has served 272 families with 806 children. Ms. Bollinger said they are very disappointed in the proposed reduction because they have seen such positive outcomes from the work. Ms. Bollinger said they estimate the cost at \$1300/child compared to the basic foster care rate of \$5,000. They feel this program is less restrictive, and provides in-home services. Just because the money went away, the need is still there.

Bill Colson, Executive Director of Children's Home Society of South Dakota introduced April Roselles. April was a child in residential treatment in 1994. In 2002 when she turned 18 she became an employee at the Black Hills Children's Home. Ms. Roselles gave the Committee a brief history of her life and time at the Black Hills Children's Home. April entered the home in 1994 at the age of 9 along with 2 siblings. Ms. Roselles told the Committee the Black Hills Children's Home provided counseling for her and her entire family that in the end assisted in getting the family back together. Ms. Roselles has been an employee at the Home for 7 years and has seen the positive outcomes of many children and families assisted by the Children's Home.

Senator Ahlers noted a substantial increase in actual FY09 versus budgeted FY10 for travel, as well as increases for contractual services and supplies & materials. Secretary Bowman said the department has cut back on out-of-state travel to the point they only travel if it is mandated by the federal government, and the federal government generally pays. A majority of the department's travel is spent in child protection services and they can not control all of that. Secretary Bowman said they would review the travel numbers and report back.

Secretary Bowman said the \$16 million increase in contractual services was a result of the \$70

million Medicaid Management Information System changes, and is primarily federal funds. The funds were used to build the system. The increase in materials & supplies is due in part to the department going to total scanning and imaging. However with a staff of 1100 there will always be a need for supplies. In addition, a good share of the increase is postage. Secretary Bowman said she is unable to commit to cutting any of these items in order to use the money for other things.

Division of Medical Services

Secretary Bowman told the Committee Medicaid is an entitlement program and a state/federal partnership. Nearly 1 of every 7 South Dakota citizens in any given month will have health coverage through Medicaid or CHIP and 1 of every 3 persons under the age of 19 has health coverage through Medicaid or CHIP. Low income children, pregnant women, adults and families, elderly or disabled, and children in foster care are covered by Medicaid. Approximately 68% of those covered are children, 32% are adults. Coverage for adults is limited to elderly or disabled or very low income families (family of 3 with an annual income of \$9,552). Applicants must file a financial statement to determine their eligibility. The criteria is based on income and resources. The "look-back" period for eligibility is only for those seeking long term care in a nursing home.

The Department of Social Services is the designated State Medicaid agency for South Dakota. Medicaid had seen an increase in monthly eligibles of 2.45% over the past 5 years. In the past 12 month the number of eligibles has increased by 7,108 or 6.9%.

In response to Senator Brown's questions, Secretary Bowman said the majority of the growth is children and 50% of the growth comes from Pennington and Minnehaha Counties. These counties have the highest population and have lost the most jobs. In response to Senator Hunhoff's question, Secretary Bowman said the only parents who follow their children on Medicaid are those that make less than \$9,552/year.

In FY09 the national Medicaid enrollment growth was 5.4% and 2.2% in South Dakota; however in FY10 South Dakota exceeded the national growth at 6.9% compared to 6.6%.

Response to Supplemental Questions

First Question - How is the budget request developed?

Secretary Bowman told the Committee key factors that impact the budget and expenditures include:

- FMAP and other federal requirements

- Changes in the number of eligibles
- Changes in Utilization
- Changes in Cost

The department uses a linear regression model to analyze and forecast changes in eligibles, utilization and cost. This analysis is a statistically sound method that examines the past behavior of a series of historical data to forecast future behavior. The department applies judgment and adjusts for known impacts. This analysis is a continuous process incorporating the most recent expenditure and cost information.

Information was presented regarding the growth in eligibles, the utilization and cost per recipient for inpatient and outpatient hospital services, physicians and prescription drugs. Representative Peters asked if any particular area of the state utilizes the services more than others. Secretary Bowman will provide that information.

Secretary Bowman said the department had revised the budget figures for the current year and the bad news is that the unemployment numbers were up; however, the good news is that as a result of the unemployment numbers, the department received an additional 1.88 percent in ARRA funding.

The department is requesting an increase of \$42,074,058 (\$14,191,627 general and \$27,882,431 federal) is to increase the FY11 base.

The FMAP change amounts to \$12,855,409 in general funds and the Medical Services Mandatory Inflation is \$1,894,011 in general funds and \$2,638,069 in federal. A growth of Title XIX clients from 99,357 in FY10 to 103,242 in FY11 amounts to \$14,609,590 (\$5,110,114 general, \$9,499,476 federal) and a growth in TITLE XXI (CHIP) clients of 12,426 in FY10 to 12,762 in FY11 amounts to \$578,607 (\$155,414 general, \$423,193 federal). Secretary Bowman said CHIP has a better match rate than Medicaid, affording the department more money to help more children.

Secretary Bowman explained that the \$20,160,575 increase in federal funds for Indian Health Services were 100% federal pass through for services in Indian Health Service facilities. This reduces the need for contract providers which would require a general funds match. The department estimates this general funds match costs \$12 million/year.

Representative Wismer asked for an explanation of the mandatory inflation. Secretary Bowman said this involves those individuals who are both Medicare and Medicaid eligible. The state pays for Part B and A premiums for Medicaid recipients who are also low income. A breakdown of the mandatory inflation general fund costs are as follows:

Physician Services – 2.57%	\$ 40,903
Medicare Crossover – 5%	\$392,106
Medicare Part A Premium – 4.2%	\$ 77,127
Medicare Part B Premium – 11.86%	\$817,269
BBA Expanded SMI – 11.86%	0
Part D – 3.97%	<u>\$566,606</u>
Total General Funds	\$1,894,011

Medicaid Part D request of \$2,153,526 in general funds is to replace one-time funds from last year. This is the prescription drug program for the elderly.

The department is requesting \$900,000 in federal fund spending authority for School Based Administrative Claiming. Secretary Bowman said that the state pays the school districts for Medicaid funded children. This is an increase from previous years as a result of more children and more services.

Senator Bartling asked how often the department reevaluates how many children are moved from CHIP to Medicaid. Secretary Bowman said Medicaid allows health insurance, and CHIP does not. The department tries to keep as many children as possible on CHIP because of the enhanced match rate. Everyone's income is evaluated annually and participants are required to report changes in their status or face prosecution. Senator Hunhoff asked if these individuals ever end up in the Risk Pool. Secretary Bowman said yes, if they are no longer eligible for Medicaid they can apply to the Risk Pool.

Second Question – How do you measure the effectiveness of the Medicaid program?

Secretary Bowman said effective management of Medicaid generally falls into 6 categories:

- Prescription Drugs
- Provider Rates
- Provider Tax
- Eligibility
- Services

- Service Delivery Systems.

Medicaid is primarily a health insurance program providing health insurance coverage to the very poor. The department has a strong and effective partnership with its 10,600 providers to deliver quality healthcare at a reasonable cost. One hundred percent of all primary care physicians and all hospitals accept Medicaid and 98% of all nursing homes as well. The department currently has more efforts underway to manage Medicaid effectively and according to the Centers for Medicare and Medicaid Services, South Dakota ranks 2nd lowest nationally for administrative expenditures. The department is actively managing pending claims from a year average of \$14.1 million in SY07 to \$4.2 million in SY09. Secretary Bowman said South Dakota is comparable to other states' strategies to control cost, manage care, and promote positive health outcomes. South Dakota has a very conservation program compared to other states.

In regard to primary care case management, services must be provided by, or referred by, the recipient's primary care provider and that physician acts as case manager for coordinating and approving referrals.

Senator Brown commented this would be the second year without a provider increase and asked what impact that would have. Secretary Bowman said the primary concern is that the providers will no longer provide the service, and this is already happening with specialty physicians. The same will happen with other providers such as Volunteers of America, Lutheran Social Services, Black Hills Children's Home Society and others.

Senator Novstrup asked for information on provider taxes. Secretary Bowman said she is not promoting or advocating a provider tax. A number of states use provider taxes to generate general funds for matching federal funds. There are a number of provider taxes that can be implemented on hospitals, physicians, or nursing homes. Provider tax is a very controversial subject in South Dakota and is used only at the SDDC in Redfield which is a federally recognized ICF/MR.

Representative Wismer asked for information on eligibility. Ms. Sonnenschein said there is a 20% earned income deduction, and this deduction is to encourage applicants to have employment. There is also a deduction for the actual cost of child care. The highest Medicaid income program has a cap on the amount of child care that can be deducted. Ms. Sonnenschein said all income is counted, employer provided housing does not count and earned income credit is excluded. Every state decides its own deductions. South Dakota does have the jurisdiction to

change the definitions but is very conservative in its definition. Military disability benefits would be counted because it is income as is social security.

MOTION: ADJOURN

Moved by: Haverly

Second by: Ahlers

Action: Prevailed by voice vote.

Barb Bjorneberg
Committee Secretary

Jean M. Hunhoff, Chair